

1961
Vol. II

LAND AND TAX REFORM IN LATIN AMERICA

by

William B. Dickinson, Jr.

	Page
DRIVE FOR SOCIAL REFORM IN THE AMERICAS	897
The President and the Alliance for Progress	897
Economic Aid to Latin America Since the War	898
Act of Bogota: Program for Social Progress	899
Launching of New Alliance at Punta del Este	900
Initial Problems in Implementing the Alliance	901
LATIN AMERICAN EFFORTS AT LAND REFORM	903
Nature of Agrarian Structure in Latin America	904
Land Reform Successes and Setbacks in Mexico	907
Inconclusive Results of Some Reform Programs	908
Population Growth and the Gains From Reform	910
REFORM OF PRESENT SYSTEMS OF TAXATION	911
Income Tax Defects; Reliance on Indirect Taxes	911
Need to Raise Bars to Flight of Native Capital	913
Differential Land Taxes to Promote Land Reform	913

No. 22
Dec. 13

THE right to reproduce material contained in *Editorial Research Reports* is strictly reserved to the newspaper clients of the service. Verbatim use of such material by others will be permitted only upon written authorization of the editor.

RICHARD M. BOECKEL, *Editor*

BUEL W. PATCH, *Associate Editor*

Editorial Research Reports
1156 Nineteenth Street, N.W.
Washington

LAND AND TAX REFORM IN LATIN AMERICA

BY FLYING SOUTH for one-day visits in Venezuela and Colombia, December 16 and 17, President Kennedy will remind the people of the United States as well as of Latin American countries that success for the Alliance for Progress is a prime goal of his administration. Participation by the President himself in the dedication of new school and housing projects carried out under the program will demonstrate dramatically his interest in this joint effort to improve economic and social conditions in Latin America.

It has been emphasized from the beginning that the Alliance for Progress is to be, not just another foreign aid program, but a cooperative venture. The Latin American countries are expected not only to contribute, according to their ability, to the cost of projects but also to carry out basic economic and fiscal reforms that will improve the chances that the alliance will yield permanent gains. When President Kennedy broached the idea of the alliance, in a talk to Latin American diplomats at the White House last March 13, he said: "Unless necessary social reforms, including land and tax reform, are freely made—unless we broaden the opportunity of all of our people—unless the great mass of Americans share in increasing prosperity—then our alliance, our revolution, our dream and our freedom will fail."

Marshall Plan aid for European recovery after World War II was conditioned on self-help and economic collaboration on the part of the participating nations,¹ but the reforms now sought in Latin America represent a fundamental departure in this country's approach to the problem of assisting underdeveloped nations. Adlai E. Stevenson, United States representative at the United Nations, has spelled out some of the "new truths" about helping such countries that have been learned since the war. "We

¹ See "Conditions for American Aid," *E.R.R.*, 1947 Vol. II, pp. 759-774.

learned that economic development can court political disaster if it merely benefits the fortunate few while the gulf between rich and poor grows still more dangerously wide," Stevenson told the Inter-American Press Association on Oct. 16. "We learned that it was impossible to build a modern economy on foundations of massive poverty, illiteracy, feudalism, tax avoidance and social injustice. We learned, in short, that a social revolution in some cases is a precondition of political stability and economic growth."

ECONOMIC AID TO LATIN AMERICA SINCE THE WAR

Until recently, U.S. government officials appeared content to let Latin America rely largely on private investors and the Export-Import Bank for assistance in economic development. Demands for a larger share of this country's foreign aid funds were ignored because the Latin republics enjoyed a steady flow of private United States investment (totaling \$9 billion by 1961) while American investment of private funds in other underdeveloped areas was small. From June 30, 1946, to June 30, 1959, U.S. aid to the Latin American countries aggregated about \$3.8 billion, of which \$2.3 billion was provided by the Export-Import Bank. These sums represented only a modest part of the \$60 billion total of U.S. foreign aid funds distributed during that period.

In August 1958, President Juscelino Kubitschek of Brazil launched what came to be called "Operation Pan America." He appealed to the governments of the Americas to utilize all available resources in a combined effort to improve the economic and social life of the peoples of the Western Hemisphere. The plan was received enthusiastically at an informal meeting of foreign ministers in September 1958, and the Council of the Organization of American States established a Special Committee to Study the Formulation of New Measures for Economic Cooperation (Committee of Twenty-One). Among the committee's early achievements was the setting up of the Inter-American Development Bank, which began operations in 1960.²

The urgency of the need for social and economic reform in Latin America was brought forcibly to United States attention by the Cuban revolution and growing evidence of the Castro regime's Communist ties.³ To counter a Red

² See "Inter-American System," *E.R.R.*, 1960 Vol. I, pp. 113-115.

³ See "Revolution in the Western Hemisphere," *E.R.R.*, 1961 Vol. I, pp. 23-40.

Land and Tax Reform in Latin America

economic and propaganda offensive in the Western Hemisphere, President Eisenhower on July 11, 1960, announced an ambitious program of economic assistance to Latin America, including aid in financing land reform, housing construction and expansion of educational facilities.

ACT OF BOGOTA: PROGRAM FOR SOCIAL PROGRESS

The concept that economic assistance should lead to social progress was soon put in formal language at an inter-American economic conference in Bogota, Colombia. The Act of Bogota, signed by representatives of 19 of the 21 American republics⁴ on Sept. 13, 1960, explicitly recognized that "The preservation and strengthening of free and democratic institutions in the American republics requires the acceleration of social and economic progress in Latin America adequate to meet the legitimate aspirations of the peoples of the Americas for a better life and to provide them with the fullest opportunity to improve their status."

The Act of Bogota called for examination of existing legal and institutional systems with respect to: "a. Land tenure legislation and facilities with a view to ensuring a wider and more equitable distribution of the ownership of land, in a manner consistent with the objectives of employment, productivity and economic growth; b. agricultural credit institutions with a view to providing adequate financing to individual farmers or groups of farmers; c. tax systems and procedures and fiscal policies with a view to assuring equity of taxation and encouraging improved use of land, especially of privately owned land which is idle."

Underlying the accord at Bogota was an offer by the United States to make \$500 million available for social-purpose projects in the Latin American countries. Congress authorized the appropriation while the Bogota conference was in session, but actual voting of the Fund for Social Progress went over to the present Congress.

EMPHASIS ON SELF-HELP AND INTERNAL REFORM

It was left to the new administration in Washington to specify the conditions for aid to Latin America. In his March 13 remarks at the White House, President Kennedy

⁴ Cuba abstained and the Dominican Republic was absent.

proposed that the American republics initiate a vast new ten-year plan for the Americas—an Alliance for Progress or *Alianza Para Progreso*. Self-help and internal reform were declared to be the keys to effectiveness of the new venture.

The following day the President formally asked Congress to appropriate the \$500 million previously authorized, but he warned: "So that each recipient nation will live up to the principles of self-help and domestic reform outlined above, funds will not be allocated until the operating agency receives assurances that the country being aided will take those measures necessary to ensure that the particular project brings the maximum social progress." Congress appropriated the funds in May, echoing the stipulation that the United States insist on self-help and social and economic reforms prior to making commitments to individual countries.

LAUNCHING OF NEW ALLIANCE AT PUNTA DEL ESTE

Detailed agreement on objectives and mutual commitments of the Alliance for Progress was reached by all the American republics except Cuba at a conference in Punta del Este, Uruguay, in mid-August. In a Declaration to the Peoples of America, Aug. 16, the signatory countries promised:

To encourage, in accordance with the characteristics of each country, programs of comprehensive agrarian reform, leading to the effective transformation, where required, of unjust structures and systems of land tenure and use; with a view to replacing *latifundios* [large estates] and dwarf-holdings by an equitable system of property so that, supplemented by timely and adequate credit, technical assistance and improved marketing arrangements, the land will become for the man who works it the basis of his economic stability, the foundation of his increasing welfare, and the guarantee of his freedom and dignity.

Other agreed goals included the following: "To reform tax laws, demanding more from those who have the most, to punish tax evasion severely, and to redistribute the national income in order to benefit those who are most in need, while, at the same time, promoting savings and investment and reinvestment of capital."⁵

The United States promised to provide "a major part of the minimum of \$20 billion, principally in public funds,

⁵ Objectives of the Alliance for Progress and the measures proposed for attaining them were outlined in greater detail in the Charter of Punta del Este.

Land and Tax Reform in Latin America

which Latin America will require over the next 10 years from all external sources in order to supplement its own efforts." The countries of Latin America agreed to devote "a steadily increasing share of their own resources to economic and social development."⁶

Fowler Hamilton, head of the new Agency for International Development, which has succeeded the International Cooperation Administration, reiterated the self-help theme in foreign aid when he was sworn in Oct. 3: "In the administration of this program [Foreign Assistance Act of 1961] we will regard it as our first duty to help those of the less-developed friendly countries that make efforts to help themselves, and we will regard as the best evidence of their desire to help themselves their willingness to undertake changes, if necessary, even in their internal organization."⁷ Observers remarked that Hamilton's notice to prospective aid recipients came at a time when pressures were mounting among some Latin American governments for prompt and substantial economic aid without regard to self-help criteria.

INITIAL PROBLEMS IN IMPLEMENTING THE ALLIANCE

Obtaining compliance with the reform requirements of the Alliance for Progress is proving a delicate task, and progress so far has been limited. The general lines for future work on land reform were set at an Oct. 9 meeting of a special committee on agricultural development and agrarian reform appointed by the Organization of American States. And tax experts from 17 countries gathered in Buenos Aires recently to discuss tax structures and collection methods.

Some trouble has been reported in developing reform programs. In El Salvador, ordering of a series of farm labor reforms and a drastic tightening of income-tax laws touched off a political storm; the U.S. embassy was accused of helping to draft the reforms but emphatically denied that it had done so. Paraguay refused to accept a national

⁶It has been widely but incorrectly assumed that the \$20 billion pledged by the United States was to come entirely out of the federal treasury. Secretary of the Treasury Douglas Dillon explained at a news conference, Aug. 22, that the government contribution was expected to be around \$11 billion. He estimated roughly that the remaining \$9 billion would be supplied in equal parts by (1) U.S. private investors, (2) international institutions (World Bank, Inter-American Development Bank, etc.), and (3) Japanese and European governments and private investors.

⁷In passing the Foreign Assistance Act last September, Congress made specific reference to Latin America and emphasized that aid should be given "according to the principles of the Act of Bogota."

planning commission that would be assisted by U.S. technical advisers.

Bolivia and Colombia drew up extensive development plans, setting forth the amount of foreign aid that will be required to put them into effect. The plans presumably will be submitted to an Inter-American Advisory Committee of "nine wise men," approved in principle at Punta del Este but not yet appointed. Some officials interviewed by a Washington newspaperman in the course of a 53-day trip through Latin America complained that the alliance program had become "too complicated to fathom." Others asserted that "the sense of urgency stressed this summer has been lost."⁸

A major step toward making the alliance fully operative was taken Nov. 6 with the appointment of Teodoro Moscoso, U.S. ambassador to Venezuela, as Latin American area administrator of the Agency for International Development. To his new job as administrator of the Alliance for Progress, Moscoso brings experience gained during more than 10 years as administrator of the Puerto Rico Economic Development Administration. In that position he helped Gov. Luis Munoz Marin set in motion Operation Bootstrap, often cited as a model for economic and social development in Latin America. On Nov. 20 the new Agency for International Development made its first loan—\$50 million to Brazil to help finance essential imports from the United States and to help stabilize Brazil's economy.

INTENSITY OF RISING POPULAR PRESSURES FOR REFORM

The technical and political problems encountered in giving the Alliance for Progress momentum come at a time of quickening public pressures for land reform. In Latin America, as elsewhere, the landless peasant wants intensely to acquire land. A student of agrarian reform has stated that revolutions will continue as long as the peasant remains in the agricultural sector of the economy and without land.⁹ Francisco Juliao, organizer of the Peasant Leagues in Brazil, told an interviewer recently that he doubted that a Brazilian Congress dominated "by conservatives and landowners" would adopt legislation necessary for the sweeping land reforms he believes are needed. But

⁸ George Sherman, *Washington Evening Star*, Oct. 18, 1961.

⁹ Clarence Senior, *Land Reform and Democracy* (1959), p. 5.

Land and Tax Reform in Latin America

he added that if it was not possible for the peasants to obtain land by legal means, they would acquire it by revolution.¹⁰

United States officials discount assertions that Communists are responsible for the wave of revolutionary change now sweeping Latin America. Former Under Secretary of State Chester Bowles recently stated: "If every Communist turned in his card tomorrow, this so-called 'revolution of rising expectations' with all its ferment and vast potential for chaos or improvement would still be with us."¹¹

It is generally agreed by Latin American observers that the inability or reluctance of the government of President Jose Maria Velasco Ibarra to bring about tax and land reforms in Ecuador caused his overthrow early in November. His successor, President Carlos Arosemena, immediately called the Ecuadorian Congress into session to take action on income and inheritance tax legislation. Ecuador's revolution may have been ignited by a series of new sales taxes which put a heavy added burden on the poor and turned the aims of the Alliance for Progress upside down.

Latin American Efforts at Land Reform

LAND TENURE and land distribution inequities were born in Latin America with the coming of Spanish and Portuguese colonists. Titles to immense tracts were handed over to conquerors and Crown favorites. At the same time the Roman Catholic Church and the monastic orders acquired vast holdings, as did a few humbler early colonists who saw in land a steppingstone to high social status.

The Latin American wars of independence, unlike the American Revolution, were fought by and for a ruling élite, with the bulk of the population participating much as the vassals of the Middle Ages had fought for their feudal lords. Independence did not, therefore, change the landholding pattern to any marked degree. Even after anti-clerical revolutions and reforms had dispossessed the

¹⁰ *New York Times*, Nov. 12, 1961.

¹¹ Address before Mexican North American Cultural Institute, Mexico City, Oct. 19, 1961.

Church and the monastic orders in most countries, the picture remained essentially the same; the Church properties generally passed in large chunks to important military or political figures. As Lester D. Mallory, former Deputy Assistant Secretary of State for Inter-American Affairs, has noted: "Latin America entered the 20th century with its countries ruled by strongly entrenched oligarchies based on ownership of land and on their resulting influence on the economies."¹²

NATURE OF AGRARIAN STRUCTURE IN LATIN AMERICA

In looking at the agrarian structure in Latin America, most observers are struck by the concentration of ownership in relatively few large units (*latifundios*), and by the large number of very small farms (*minifundios*) at the other end of the scale. Other features of the agrarian structure are the communal holdings (*comunidades*) and the special form of farm labor known as the *colono* system.

For Latin America as a whole, roughly 90 per cent of the land belongs to 10 per cent of the owners. The degree of concentration is even more pronounced in certain of the republics. In Peru, 30 families are said to own most of the arable land. In Chile, fewer than 1 per cent of the farm operators control 43 per cent of the land. Five hundred owners in Argentina possess 18 per cent of the farm land. In Ecuador, 705 farm units (0.17 per cent) occupy 37 per cent of the farm land. One-half of the farm land in Brazil is in the hands of 1.6 per cent of the landholders.

If the *latifundios* result in extreme maldistribution of income, the *minifundios* may be said to carry nearly equal disadvantages for the peasants. The great majority of the *minifundios* are so small that no acceptable minimum level of living is possible. In Guatemala, for example, 97 per cent of all farms are in units of less than 20 hectares (1 hectare equals 2.47 acres). The corresponding figures for Peru and Ecuador are 90 per cent, for the Dominican Republic 95 per cent, for Venezuela 88 per cent, and for the private sector of the Mexican farm economy 88 per cent. In some Andean mountain areas these small holdings have become subdivided as a result of population pressure into tiny plots often only a few feet wide.

¹² Speech before Inter-American Congress of Municipalities at San Diego, Calif., Oct. 16, 1960.

Land and Tax Reform in Latin America

It should be emphasized that the *minifundio-latifundio* patterns are not independent, but are often closely interrelated. Large estates are surrounded by many small *ranchos*, *chacras*, *huertas*, *hijuelas* or *sitios*, drawing seasonal labor from them and in many ways contributing to the maintenance of the system. The *latifundios* exercise an influence far beyond their own boundaries, and they are frequently a limiting force on regional development. More importantly, perhaps, the system acts as a barrier to social mobility, participating citizenship and the emergence of a broad base for upgrading the quality of human effort, which is a prerequisite for dynamic development.¹³

The third type of land holding is the *comunidad*, whose base is an aggregation of families having claims to a specific land area. It is a prominent feature of the Andean communities in Peru, Bolivia and Ecuador. In modern times many of these communities have in effect subdivided and individualized their land holdings, but in most there is a periodic reallocation of land among members. Much of the work is performed collectively on an exchange basis. The communal arrangements have been criticized as excessively rigid and likely to inhibit developmental forces. Several of the recent land reform proposals, notably in Peru and Ecuador, envision transforming the *comunidades* into modern cooperatives or true collectives.

The *colono* system of land tenure likewise is regarded as inefficient and as a poor base for economic development. The worker on a large estate is paid by being given the use of a parcel of land in return for serving a specified number of days on the estate. This system is often combined with sharecropping or with tenancy on a cash rent basis. In countries which have introduced land reforms, such as Bolivia, the *colonos* have been among groups especially benefiting. Their possession of the small plots they had been occupying and working on the *haciendas* was confirmed. Argentina and Uruguay are examples of countries where the degree of tenancy is high.

As a general rule, none of the four major systems of tenure is adequate. Units of production are either too large or too small, land cannot easily change hands, and there is no way in which a landless person can gradually work his way into the ownership class. The impact of the collective inequities on economic progress may be judged by the fact that about 60 per cent of the population

¹³ Thomas F. Carroll, "The Land Reform Issue in Latin America," in Albert O. Hirschman, edit., *Latin American Issues: Essays and Comments* (1961), p. 167.

of Latin America, or more than 115 million people, are dependent upon agriculture for their living.¹⁴

RECENT EXAMPLES OF LAND REFORM IN FAR EAST

In discussion of methods of land reform applicable to Latin America, some attention has been given to agrarian reforms brought about in Asia with United States assistance. By far the most dramatic reform of this kind was the land redistribution initiated in Japan during the occupation after World War II. Under U.S. sponsorship and direction, the Japanese government purchased five million acres of land for resale to tenants on liberal terms. Roughly one-half of Japan's farmers took advantage of this opportunity to acquire land, and today all except about 10 per cent of the country's acreage is owner-cultivated. At the beginning of the occupation, an estimated 70 per cent of Japan's farming population had depended in some degree on rented land.

Some agricultural experts question whether Japan's experience with land reform can be duplicated in Latin America. The success of the program in Japan was due in part to a rapid industrial expansion, which served to reduce steadily the number of persons depending on agriculture for a livelihood. Few Latin American countries can expect to obtain such assistance from the industrial sectors of their economies. Japan, moreover, has a literate peasantry amenable to technological innovations in farming, plus a willingness to work hard for long hours.

Land reform in South Korea has reduced tenancy from two-thirds to less than one-half. Even greater progress has been made on Taiwan (Formosa). The United States joined with the Chinese Nationalist government in 1949 to establish a Joint Commission on Rural Reconstruction to decide how American funds should be used to help the rural population of Taiwan. At the time, tenant farmers paid as much as 60 to 70 per cent of their principal crops in rent, although they had to buy their own seed, fertilizer and other necessities. Fixing of the maximum percentage of crop yield that could be charged by landlords was the first step taken to improve conditions. The government then instituted regulations for land tenure. Public lands were put up for sale, and by early 1955 some 151,000 acres had

¹⁴ 1960 Annual Report of the Inter-American Economic and Social Council.

Land and Tax Reform in Latin America

been acquired by about 122,000 families. About 75 per cent of Taiwan's farmers now own all or a part of the land they till.¹⁵

LAND REFORM SUCCESSES AND SETBACKS IN MEXICO

Mexico affords an example of successful land reform in a Latin American country. The program, first in the Western Hemisphere, goes back to 1915. Land decrees issued in that year were written into the Mexican Constitution of 1917. They gave the government the right to expropriate private property and set forth methods for land distribution through a special form of communal tenure called the *ejido*.

Titles to Mexican *ejidos* make the *campesinos* lifelong tenants of their tracts and owners of the crops they raise. The tracts eventually pass on to the sons or daughters of the family. They cannot be absentee landowners, and they cannot sell the parcels. The *ejido* works much like any cooperative: Farm machinery is usually bought cooperatively with government credits; credits by federal banks help to finance seeding and cultivation; many basic crops, such as corn and wheat, are sold to the government at guaranteed prices.

Land distribution in Mexico took a long time to gather momentum. During the first two decades, only eight million hectares—about 6 per cent of all the land in farms—were distributed. The major part of the distribution came in the years 1934-40, when 18 million hectares were redistributed. Since 1915, nearly two million families have been placed on about 110 million acres of land; more than one-half of Mexican farm families have some stake in the land.

Mexico's agrarian reform in its early phases revealed a lack of forward planning. The new landholding Indian found himself without good seed, farm animals or tools. He had nowhere to turn for credit, and he was unfamiliar with marketing practices. The result was a drop in agricultural production and a shortage of such Mexican staples as corn and beans. Since 1940, however, agricultural output has nearly tripled.

The process of breaking up large land holdings is still going on in Mexico. By the end of his six-year term in

¹⁵ See "Land Reform in Asia," *E.R.R.*, 1951 Vol. I, pp. 83-100.

1964, President Lopez Mateos expects to have added nearly 20,000 acres to the land program, much of it from virgin jungles and other public lands in the southern areas of Mexico. Under a new colony system of distribution, owners take over the land for a simple fee and can dispose of it in any way after it has been paid for. The colony system, started in 1947, provided for establishment of agricultural colonies on rural land, largely national property, to increase crop and livestock production. Entire farm populations are being resettled in the South under this system.

TYPE OF REFORM WIDELY FAVORED FOR LATIN AMERICA

Other Latin American countries are watching the Mexican land settlement plan with interest as an alternative to expropriation of large landowners. A report from the "Group of Experts" at the Punta del Este conference supported this approach to land reform, saying: "Elimination of low-productivity *latifundio* and dwarf-holdings involves a complex process of institutional and social changes. Land settlement can be achieved with least cost where there are large areas of accessible fertile land in public ownership."

Opening up of virgin tracts to resettlement is the kind of land reform usually favored by U.S. business interests in Latin America, perhaps because of their fear of expropriation. On the other hand, some agronomists point out that the region is not richly endowed with good land. Vast areas in the tropics are useless for cropland because excessive rains leach the soil of basic plant nutrients, while other areas are too mountainous or too dry for normal cultivation. "It is clear that, except for a few areas, the existence of new land to be opened up is quite limited."¹⁶

INCONCLUSIVE RESULTS OF SOME REFORM PROGRAMS

Recent attempts at land reform outside Mexico offer little room for satisfaction. Bolivia enacted reform legislation in August 1953, after a peasant uprising in which *campesinos* ousted landlords from their estates. Redistribution of land that was not performing a social function was made a fundamental objective of the Bolivian law, but in the general disorganization that followed the revolution the reform got off to a slow start. Former landlords received little or no compensation for expropriated property.

¹⁶ "Land Problems in Latin America," *Latin American Business Highlights* (Chase Manhattan Bank publication), Third Quarter 1961, p. 3.

Land and Tax Reform in Latin America

Lack of adequate technical, financial and administrative resources led to chaos in farm production, and output has not yet got back to the pre-reform level. Sen. Wayne Morse (D Ore.) returned from a study mission to Bolivia in February 1960 to report that the land reform program there "frequently distributed parcels which are uneconomically small to peasants who had neither the technical skills nor the capital to engage in independent farming operations."

Even more disappointing was the outcome of a comprehensive land reform program instituted by the government of Guatemala in 1952. Decree 900, issued by the regime headed by President Jacobo Arbenz Guzman, provided for expropriation and redistribution of uncultivated or fallow lands in excess of a certain basic amount. Compensation was offered in the form of government bonds maturing in 25 years. The program ran into powerful opposition, especially when the government expropriated 160,000 hectares of uncultivated land from the United Fruit Co. About 100,000 families received or occupied some land before the Arbenz regime was ousted in 1954. Decree 900 then was revoked and all land expropriated from the United Fruit Co. was returned. Only a small amount of colonization has been carried out, with U.S. technical assistance, since 1954. Writing from Guatemala City, Nov. 14, C. L. Sulzberger of the *New York Times* commented: "Unhappily, we still look like champions of the rich and the status quo."

Land reform was one of the main objectives of the revolution that swept Fidel Castro into power in Cuba in January 1959. A land reform act was adopted the following May to wipe out big estates and single-crop farming in favor of cooperative units or private farms with diversified production and a minimum area of about 66 acres. Land subject to expropriation was to be paid for in 20-year bonds with interest at 4.5 per cent. However, many large holdings were simply confiscated; the bonds never were issued.¹⁷

A United Nations report warned as early as July 1960 that Cuba was moving too fast with land reform and giving away too much land for nothing. The 1959 U.N. *Economic Survey of Latin America*, issued July 4, 1960, stated: "The

¹⁷ See "Expropriation in Latin America," *E.R.R.*, 1960 Vol. I, pp. 24-30.

question may be asked whether the great speed with which the program is being launched is consistent with the financial resources, skilled personnel and minimum facilities which are essential if so drastic a redistribution of land is to be carried out without seriously jeopardizing agricultural production and therefore the national economy."

Reports from Cuba conflict on the question of how redistribution of land has affected production. Shortages of certain kinds of food are reported, but it is not clear whether they have resulted from a breakdown of the farming system or from the impact of a United States embargo on shipments to Cuba. Significantly, however, emphasis in Cuban land reform has shifted from granting land to small farmers to establishing the collectives and state farms characteristic of Communist-bloc nations.

A system of land reform instituted in Venezuela in March 1960 by the government of President Romulo Betancourt is considered promising. The law made three kinds of land subject to expropriation: Uncultivated acreage; farms worked indirectly through renters, sharecroppers or other intermediaries; and lands suitable for cultivation but devoted to natural pasture for extensive livestock raising. Private lands can be expropriated only if no publicly owned properties are available in the same area. Three hundred thousand rural families—virtually all the landless families in Venezuela—are expected to benefit from the program within the next 10 years.

POPULATION GROWTH AND THE GAINS FROM REFORM

Some economists doubt that any system of land reform can improve living standards substantially, if at all, in the face of a continued growth of population. Latin America is the fastest-growing area in the world. Its present population of 195 million persons represents an increase of about 30 per cent over the past 10 years. A Department of State "medium projection" for population growth indicates that the region will have 303 million people by 1975 and 592 million by the year 2000.¹⁸ As President Kennedy pointed out in his message to Congress proposing a new foreign aid program, March 22, "Latin America will have to double its real income in the next 30 years simply to maintain already low standards of living."

¹⁸ U.S. Department of State, Bureau of Intelligence and Research, *World Population Trends and Problems* (July 23, 1959).

Land and Tax Reform in Latin America

Population growth now almost outstrips economic gains. Population currently is increasing at a rate of 2.8 per cent a year, while the annual rate of growth for agricultural production is barely 3 per cent. A report published by the United Nations Bureau of Social Affairs last April showed that per capita income in Latin America fell by 1.3 per cent in 1959, after moving unevenly upward since 1953.

President Lleras Camargo of Colombia posed the dilemma facing his nation in an address, Nov. 26, 1959, at the opening of the National Peasants Congress in Bogota: "At the beginning of this century, the Colombian population was probably 3.5 million people; by 1945 we had about 10 million Colombians, and today the population is estimated at 14 million. Maintaining this rate of growth, we should have 50 million at the end of this century. How are these people to work, feed, dress, and lodge themselves?"¹⁹

Reform of Present Systems of Taxation

A RESOLUTION annexed to the Charter of Punta del Este declares that application of a sound tax policy "facilitates the financing of economic development and contributes to social progress through more equitable distribution of income and the encouragement of more productive use of land." Although no one disputes this point, true tax reform in Latin America may prove more difficult to effect than land reform. Tax evasion, bribery, and inefficient administration characterize collection of taxes throughout the region.

INCOME TAX DEFECTS; RELIANCE ON INDIRECT TAXES

A large part of the burden of supplying public revenues falls on consumers through indirect taxation, which takes no account of ability to pay, and on salaried persons whose incomes can be taxed at the source. Large landowners and professional people whose incomes are in non-salary form frequently escape taxation on the full amount of what they take in. And corporations are not believed to be scrupulous about such matters. Eric Sevareid reported from Brazil last spring that "The considered judgment of one

¹⁹ See "Population Growth and Foreign Aid," *E.R.R.*, 1957 Vol. I, pp. 443-460.

accounting expert with many years of experience here is that nine out of 10 Brazilian concerns keep two sets of books, the rigged one for the benefit of the tax collector."²⁰

Shortcomings of the tax systems of Latin American countries are evident from study of data published in the *United Nations Statistical Yearbook, 1960*. In calendar 1960, for example, taxes on income, profits, gifts, inheritances and the like yielded only 31 per cent of the total revenue of the national governments of Brazil and of Chile. In Mexico in the same year, similar taxes on income and wealth produced 32 per cent of total revenues. The comparable figure for Argentina (1959) was 22 per cent; for Colombia, 49 per cent; for Venezuela (fiscal 1961), 37 per cent. By contrast, taxes in these categories in the United States produced 81 per cent of the revenues collected by the federal government in fiscal 1960.

Income tax systems of Latin American countries are highly complex. A schedular system used in many of the countries subjects different types of income—salaries, professional earnings, rents, interest, lottery winnings, etc.—to different rates of tax, with the result that taxpayers with the same amount of income may be liable to quite different amounts of tax. Another feature of the tax systems in most countries is basic exemptions so large that they exclude a substantial proportion of income recipients from liability to income tax.

Although such factors make comparisons difficult, rates are unquestionably lower than in the United States. In Uruguay, which introduced an income tax only this year, rates are graduated from 5 per cent to 30 per cent. Rates in Argentina range from a minimum of 11 per cent on the first \$550 of taxable income to a maximum of 54 per cent on that portion of an individual's income in excess of \$220,000. Venezuelan rates on individual income range from 4.5 per cent in the first bracket to a top of 47.5 per cent on income in excess of \$8 million. In the United States, on the other hand, the minimum rate, applicable on the first \$2,000 of taxable income, is 20 per cent, and any income in excess of \$200,000 is taxed at a rate of 91 per cent. Corporation income is taxed at rates in excess of 38 per cent in eight Latin American countries, but in the United States the rate is 52 per cent.

²⁰ Dispatch to *Washington Post*, May 21, 1961.

Land and Tax Reform in Latin America

Under the present tax structure in Mexico, revenue collections have represented a steadily declining share of the national income—now only 8 or 9 per cent as compared with about double that ratio in the case of the federal government in the United States. This situation, general throughout Latin America, means that the governments do not have adequate revenues to finance public improvements.

NEED TO RAISE BARS TO FLIGHT OF NATIVE CAPITAL

High corporation income taxes, of course, would reduce the amount of earnings available for reinvestment, but the amount is already reduced by a continuing flight of capital. Latin American businessmen, taught by the history of their countries to expect conditions of political and economic instability to prevail, are in the habit of investing a large share of their profits abroad despite low taxes at home. Chester Bowles, former Under Secretary of State, recently told a Mexican audience: "I do not see why my government or any other capital contributor should be asked for loans or grants to replace runaway indigenous capital that could be kept at home by the same kind of curbs with which the British helped restore the soundness of their economy following the war."²¹

The reaction of the upper classes to tax reform in Latin America is a matter of great importance. Whether they will pay increased taxes or will transfer more of their taxable wealth to the United States or Europe is the question.

DIFFERENTIAL LAND TAXES TO PROMOTE LAND REFORM

Tax reform and more efficient tax collection are viewed as necessary from a United States point of view because aid funds from outside will do far more good if applied to wealth-producing projects than if used to bail Latin American governments out of chronic budgetary deficits. More equitable taxation of land also could be made to dovetail with programs of land reform. A tax on vast unused private landholdings would tend to force the owners to make productive use of the land or sell it to the state, so that it could be given or resold on reasonable terms to landless families.

Under legislation enacted by the State of Sao Paulo, Brazil, last Dec. 31, a land tax is to be used for these pur-

²¹ Address before Mexican North American Cultural Institute, Mexico City, Oct. 19, 1961.

poses. Land held for speculative gains is to be taxed at higher rates. Farmers making the best and most productive use of land, with the best housing facilities for tenants, and using soil conservation practices, are to pay lower taxes. Forest lands and reforested lands are exempted from the land tax. A graduated land tax also is being used under land reform legislation enacted in Venezuela in March 1960 to force owners of large farms to cultivate their properties more intensively or sell them.

However, past experience with land taxation as a means of agrarian reform is not encouraging. Colombia in 1957 set up an elaborate system of tax incentives and deterrents designed to improve land use practices. But as late as 1960, the penalties prescribed for inadequate land utilization had not been applied. The failure was blamed on lack of basic data for effective administration of the law. Similar attempts have been made in other countries, notably Chile, but enforcement machinery has been inadequate. It has been asserted that the powerful land-owning groups are "unwilling to submit to a graduated land tax which is of sufficient magnitude to mobilize the land market and improve the tenure distribution."²²

As the first step toward basic tax reform, experts from 17 nations gathered at Buenos Aires, Oct. 10-19, to discuss means of improving tax collection. The meeting reportedly ended on an optimistic note. William S. Barnes, Director of Latin-American Studies at Harvard University and chief officer of the conference, commented: "Ultimately, the question is going to be, have governments supported improved tax administration and application of the tax law to everybody on a fair basis? If not, they are not eligible for Alliance for Progress loans."

²² Thomas F. Carroll, "The Land Reform Issue in Latin America," in Albert O. Hirschman, edit., *Latin American Issues: Essays and Comments* (1961), p. 194.



